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ABSTRACT

Although this State Legislatve Report is not intended to be a comprehensive or exhaustive report of funding methods used by all 50 states, it does present several examples of the alternatives states use to finance child care and early childhood education programs. Discussion focuses on background issues, child care fiscal policies, early childhood education fiscal policies, and approaches designed to coordinate child care and early childhood education. It is concluded that a variety of state strategies exist to fund child care and early childhood education programs. However, since the programs are tied to different social goals and administered by different agencies, state spending strategies for child care are generally independent of those for early childhood education. In some cases, states are beginning to look for methods of coordination to minimize expenditures. In the future, the major challenge facing the states will be to pursue fiscally responsible child care and early childhood education policies that ensure the availability and accessibility of quality services for the growing numbers of children and families who will need them. (RH)

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STATE FISCAL POLICIES FOR CHILD CARE AND EARLY CHILDHOOD EDUCATION

by

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STATE FISCAL POLICIES FOR CHILD CARE AND EARLY CHILDHOOD EDUCATION

INTRODUCTION

During the 1980s, the role of state legislatures in providing child care support for families and in promoting the healthy development of young children through early childhood education programs increased substantially. This role expanded as a function of several significant factors: the growth of labor force participation of mothers of young children; a proliferation of research findings demonstrating the positive long-term benefits of early childhood education; a dramatic increase in the numbers of children living in poverty; and reduced federal spending for children's programs. Together these factors led to an increased need for both child care and early childhood education programs, with the responsibility for financing these programs focused largely on the states.

This State Legislative Report presents a variety of examples of the alternatives states use to finance child care and early childhood education programs. It is not, however, a comprehensive or exhaustive report of all funding methods used in each of the 50 states.

BACKGROUND ISSUES

Despite the fiscal constraints facing the states, the growing need for child care and early childhood education is expected to continue. Child care is an essential support to working families that directly affects labor force participation, self-sufficiency and productivity of parents at all economic levels. Demographers predict that by the mid-1990s, over two-thirds of all mothers of preschool age children, and nearly three-fourths of all mothers of school age children will be working and in need of child care services for their children (1).

There is also evidence of accelerating interest throughout the country in early childhood education programs. These programs, usually designed as half-day programs in group settings, provide preschool age children with enriching experiences that promote development, and often center on intellectual gains and social skills. Since 1970, the preschool attendance rate has almost doubled for 3 and 4-year-olds, and in 1985, nearly 40 percent of all children in this age group were enrolled in preschool (2). During this period, too, findings from a growing body of research demonstrated that early childhood education is effective with children from economically disadvantaged families in improving school performance, reducing drop out and teen pregnancy rates, decreasing delinquency and arrest rates, decreasing welfare dependency and increasing the likelihood of employment in young adulthood (3, 4, 5).

In addition, the education reform movement, with its associated emphasis on meeting the needs of academically and socially at-risk children, has stimulated interest in the preventive aspects of early childhood education. This emphasis has also been influenced by the growing rate of young children living in poverty, currently estimated to be one in four (6). The recognition of the growth of this population suggests the need for expanded early childhood education programs since these children are considered at

greatest risk for social and academic failure and would be most likely to benefit from early education. Therefore, the recent commitment of state money to both new and expanded early childhood education programs is likely to grow.

CHILD CARE FISCAL POLICIES

State fiscal policies support child care in a variety of ways. The major emphasis is on reducing the costs of child care, particularly for low income families. However, there is evidence of a developing trend toward reducing child care costs for working families at all income levels. This trend is reflected in a growing interest in state fiscal policies designed to encourage employers to assist their employees in meeting child care needs, as well as an increased emphasis on policies that provide tax breaks to working families to defray child care costs. This trend is also reflected in the proliferation of policies that provide fiscal incentives to increase accessibility and promote expansion of child care services. In many states, fiscal policies also provide child care support to parents in training and education programs. In addition, some states provide financial support to child care providers to improve quality and decrease the costs of providing child care services.

State Use of Federal Dollars: Throughout the country, the largest state expenditures for child care are made through allocations of federal money, primarily through administration of the Social Services Block Grant (SSBG) program (formerly Title XX). The majority of the states use part of their SSBG money to fund child care. Eligibility for SSBG child care money differs among the states, but is usually based on Aid to Families with Dependent Children (AFDC) or Supplemental Security Income (SSI) eligibility. In general, states allocate SSBG child care funds through vouchers to parents or reimbursements to providers using sliding fee scales based on family income and number of dependents. Some states provide additional appropriations to the SSBG child care programs to enable broader income eligibility. For example, Wisconsin supplements its SSBG child care subsidy program to enable families earning up to 82 percent of the state median income to be eligible for child care assistance.

The other major source of federal money used for child care is the Aid to Families with Dependent Children Child Care Disregard (AFDC-Disregard) programs, which subsidizes child care expenses for low income parents. Under this program, recipients of AFDC may exclude up to $160 per child per month for child care expenses from the calculation of their monthly AFDC grant.

State Funded Sliding Fee Scales: Several states subsidize child care costs for low income parents through sliding fee scale programs that are independent of the SSBG program and completely funded by the state. California and Rhode Island fund state sliding fee scales that provide low-income, non-AFDC recipients child care subsidies. Alaska also funds a state sliding fee scale program, with eligibility for child care subsidies based on family income, number of dependents and a geographical index designed to off-set high costs of child care in remote areas. Although Minnesota does use SSBG money for child care, the state also has a sliding fee scale for families whose income exceeds the SSBG level but is within 50 percent of the state's median income.

Financial Assistance to Families Through the Tax Code: Slightly over half of the states provide financial support to families at other than the lowest income levels, through state income tax credits or deductions for child care expenses. State child care tax credits are generally related to the federal child care tax credit program* and range from 10 percent of the federal credit in Arkansas to 45 percent in Iowa. In most cases, state child care tax credits are not useful for families that do not earn enough to be tax liable. However, Minnesota and New Mexico provide refundable child care tax credits to families at or below the tax threshold.

Several states permit deductions for child care expenses. Although Idaho permits families to deduct 100 percent of their child care expenses, Montana restricts the deduction to $4,800 and Virginia's maximum deduction is $2,000. Colorado permits families to deduct child care expenses that are eligible for the federal tax credit. Colorado also enables parents filing separate state income tax forms to divide the deduction in any proportion between the two tax returns.

State Incentives for Employer Support of Child Care: As the scope of families included under child care policies grows beyond the low income population, states have increased efforts to develop methods for encouraging employers to provide child care assistance for their employees. These policies encourage employers either to subsidize their employees' child care costs directly, or to contribute to the expansion of child care services in the community. The majority of these incentives provide tax relief to employers involved in child care assistance programs.

Connecticut permits businesses to earn either a corporate investment or renovation credit up to 40 percent for contributions to non-profit and up to 30 percent for contributions to profit making child care facilities used by employees. Connecticut also permits a 50 percent business tax credit for employee day care subsidies. In New Mexico, employers who finance or operate child care programs may deduct up to 30 percent of these expenses. The New Mexico deduction is capped at $30,000. Arizona permits employers to deduct expenses for child care facilities over 60 months and also permits amortization of expenditures over 24 months. Pennsylvania provides an employment incentive payment credit to employers providing child care for children of their employees, and Florida allows employers to deduct 100 percent of start-up costs for employee child care facilities. In California, expenses for certified child care centers located in places of employment may be amortized and depreciated over 60 months.

Child Care for State Employees: As an employee benefit and as a model for employer support for child care, several states provide child care assistance for state employees. Typically, states provide child care facilities located in or near state office buildings. New York operates 30 day care centers at state facilities, and California requires day care space in new state office buildings with 700 or more employees. Iowa, Michigan, New Jersey, and Rhode Island provide on-site day care in one or more of their state buildings,

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* The federal child care tax credit program provides income tax credits for child care expenses up to a maximum of $2,400 for one child and $4,800 for two or more children. The credit ranges from 20 to 30 percent of child care expenses based on the family's income.

and Arizona, Connecticut, Maryland, Mississippi, Washington and Wisconsin have on-site child care centers that are accessible to legislative employees. In addition, several states, including Massachussets, Ohio and Utah, permit private contractors to provide child care in state office buildings for state employees.

As an alternative to on or near-site child care, Illinois permits state employees to use an income reduction plan in which the state deducts money from employee paychecks before taxes and then uses this money to reimburse the employee for child care expenses. In addition, Oregon, New York and Wisconsin provide child care resource and referral services for state employees.

State Child Care Support for Parents in Education and Training Programs: Several states provide either child care subsidies to parents in training or education programs, or allocate funds to child care centers serving these populations. Wisconsin provides state funds, with county matching requirements, for child care located in high schools, and Michigan provides child care services for children of teen mothers enrolled in either high school or General Education Diploma (GED) programs. Assistance is available in Maryland through the Office of the Secretary of Employment for the child care expenses of low income mothers in classroom training programs, and Massachusetts provides vouchers to cover child care costs for AFDC parents enrolled in the state's employment and training program. Minnesota also provides child care subsidies to AFDC parents in training and education programs which includes parents enrolled in four year college degree programs. In North Carolina, single parents enrolled in community colleges are eligible for special state child care assistance.

In some cases states support child care programs as part of the state college and university system. Hawaii provides a revolving fund for child care programs on the University of Hawaii campuses with revenue generated by the centers rechanneled into the fund and used for operating costs. California and New York also provide funds for campus child care.

State Support of Information and Training Services: Several states, including Connecticut, Massachusetts, New Jersey, New Mexico, North Carolina and Ohio, contribute funds to resource (or information) and referral (R&R) services. Iowa, too, contributed to an R&R network through allocation of part of its first year state lottery proceeds. In general, R&Rs help parents by providing information on a wide range of child care issues, including the availability of local services. R&Rs often provide technical assistance to child care providers and employers who are interested in providing child care benefits to their employees. In some states, such as California and Rhode Island, R&Rs receive funding from both public and private sources and represent public/private cooperation in child care assistance. Other states directly support training of child care providers. Minnesota, with both federal and state money, provides training for certified assistant child care teachers, and Rhode Island funds a training and resource program for non-English speaking family day care providers. Connecticut's training support includes a cable television training series.

State Financial Support To Reduce the Cost of Providing Child Care: In some states child care fiscal policies help reduce the costs of providing care. In Arizona child care providers may take advantage of tax deductions for purchase, construction, renovation or equipment costs over five years. In Connecticut low interest loans, payable within five years, are available to non-profit child care providers. In addition, some states provide relief for the high liability insurance rates charged to child care providers. For example, Connecticut pays liability insurance costs for school age child care programs that are funded by the state, and Massachussetts has a set aside program to assist child care providers with extraordinary insurance and rent costs.

EARLY CHILDHOOD EDUCATION FISCAL POLICIES

Nearly half the states spend state money on early childhood education programs.* These programs are generally designed to serve 3-or-4-year old academically at-risk children, although Ohio's pilot programs are geared toward the development of innovative models, and programs in Oklahoma and Pennsylvania are not targeted to specific populations. Whether or not the programs are targeted, state early childhood education programs serve limited numbers of young children. Only California and Texas implement early childhood education programs statewide.

In most cases funding for early childhood education programs flows through departments of education and is allocated either through grants to local programs and districts or through standard school finance formulas. In addition, some states supplement federal programs with state money either as an alternative to state early childhood education programs, or as a method of expanding the availability of early childhood education services to underserved target groups.

State Grants to Early Childhood Education: The most common method of funding state early childhood education programs is through grants, often awarded on a competitive basis directly to school districts or other entities providing the programs. California, Illinois and Washington use this funding strategy. In some states, such as Florida, Michigan and Ohio, the grants process is designed to support pilot programs.

State Supplements to Federal Programs: The Head Start Program is the largest federal investment in early childhood education. Head Start includes half-day enrichment programs for preschool age children and emphasizes parental involvement and supportive family services for children in poverty. Head Start is funded by 80 percent federal money and requires a 20 percent local match. Alaska, Maine, Rhode Island and Washington appropriate state funds toward the 20 percent local match. Maine's appropriation is intended for program expansion. Connecticut, Massachusetts and Rhode Island appropriate funds to increase Head Start teacher salaries.

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* For more information, see State Legislative Report Vol. 11, No. 14. "State Approaches to Early Childhood Education".

Programs Funded As Part of School District Budgets: Funding for early childhood education programs in Pennsylvania and New Jersey is based on state public school aid formulas with state money flowing directly to the local districts. In Maine, allocations for these programs are part of the total school budget.

Limitations on Use of State Dollars for Early Childhood Education: Several states require local matching funds for state early childhood education money, and others limit the use of state funds to specific program elements. New York requires a minimum 11 percent match, and Oklahoma and Pennsylvania require local commitments before state money is made available. Maine uses a roll-over reimbursement strategy in which partial reimbursement from the state takes effect after two years of local district funding. Although Ohio does not permit the use of state funds for teacher salaries, Maryland state funds can only be used for staff salaries and staff overhead costs.

APPROACHES TO COORDINATE CHILD CARE AND EARLY CHILDHOOD EDUCATION

Within the context of the expanding need for child care and early childhood education programs and state fiscal constraints, states will need to look for innovative methods of funding these programs at minimal cost. Coordination of child care and early childhood education policies could result in financial benefits to the state by reducing expenditures in such areas as state administration and regulation and local program implementation. Coordination could also benefit children and families by providing an integrated approach to meeting both early education and child care needs, but few examples of coordinated funding methods exist.

Massachusetts, as part of its education reform legislation enacted in 1985, established a local grants program designed to combine early childhood education and day care programs. Seventy-five percent of the funds are designated for programs serving low income populations. In Vermont, state funds are available for early childhood education in programs that also meet child care needs. North Carolina is also considering a coordinated approach through early childhood education pilot programs for 4-year-olds that include an emphasis on full day child care.

CONCLUSION

Throughout the country, a variety of state strategies exist to fund child care and early childhood education programs. However, since these programs are tied to different social goals and administered by different agencies, state spending strategies for child care are generally independent of those for early childhood education. In some cases, states are beginning to look for methods to minimize expenditures through coordination. With increasing numbers of mothers in the work force and a growing interest in the benefits of early childhood education, particularly for low income at risk children, it is likely that state funding of child care and early childhood education programs will expand. The major challenge facing the states will be to pursue fiscally responsible child care and early childhood education policies that ensure the availability and accessibility of quality services for the growing numbers of children and families who need them.

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The Children, Youth, and Families Program of the National Conference of State Legislatures is designed to meet the needs of state legislatures in developing policy and programs related to children and families. The following services are available at no cost to legislators and staff:

- o information clearinghouse
- o research assistance
- o publications
- o technical assistance

Technical assistance includes testimony at committee hearings, briefing sessions for state legislators and their staffs, and bill drafting and analysis. Resources and expertise are provided by NCSL staff, national experts, and legislators.

Project Areas

Child Care/Early Childhood Education. Funded by the Carnegie Corporation of New York, the project facilitates coordinated policymaking between legislators who work on child care issues in human services committees and those who work on education issues in education committees. The project assists state legislators in developing coordinated programs to meet child care and early education needs. Technical assistance is a major project commitment, including: planning and strategizing meetings with legislators, legislative staff, and professionals in the public and private sector; on-site delivery of assistance through hearings, briefings, workshops, or seminars; and evaluation meetings.

Child Support Enforcement. With the growing number of single-parent families, state and federal laws protecting these families' rights in establishment of paternity, child support orders, and enforcement of support and visitation are important public policy considerations. The project, under contract with the federal Office of Child Support Enforcement, assists lawmakers in developing child support public policy, including: program analysis, assistance in interpreting and drafting laws per federal compliance issues; and assessing inter- and intrastate child support enforcement, custody, visitation, and paternity establishment legislation.

Child Welfare. Through a grant from the Edna McConnell Clark Foundation, the Child Welfare Project assists state legislators in improving state child welfare systems. State child welfare systems are the primary means by which states meet the needs of abused and neglected children. Foster care or out-of-home placement is the most expensive form of child welfare service and the most traumatic for the child. With the recent explosion of abuse and neglect reports, state child welfare systems are experiencing enormous stress. Consequently, many states are exploring service alternatives. Services to prevent out-of-home care, to reunify families, and to provide adoption and other placement alternatives have become major components of the child welfare system. Technical assistance is available to legislators in a variety of areas to improve services, to assist states in complying with the federal Adoption Assistance and Child Welfare Act (P.L. 96-272), and to evaluate administration and financing mechanisms.

Teen Pregnancy. The Teenage Pregnancy Project, funded by the Ford Foundation, is designed to provide state legislators and legislative staff with information and resources from state experience related to teenage pregnancy and parenting. Major project activities are to provide on-site state technical assistance to three states each year, producing three publications annually, operating an information clearinghouse, participating in a national advisory committee, and contributing to the NCSL Annual Meeting.

For more information, contact Shelley Smith, Program Manager, Children, Youth, and Families Program, National Conference of State Legislatures, 1050 Seventeenth Street, Suite 2100, Denver, Colorado 80265, (303) 623/7800.